

## Message Text

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44

ACTION EUR-12

INFO OCT-01 ISO-00 L-03 EB-07 H-02 SS-15 SP-02 NSC-05

EURE-00 SSO-00 NSCE-00 FCSC-01 JUSE-00 TRSE-00 SEC-01

OMB-01 FRB-03 STR-04 CIAE-00 INR-07 NSAE-00 COME-00

INRE-00 /064 W

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O 021355Z JUN 75 ZFF4

FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC IMMEDIATE 3352

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E.O. 11652: N/A

TAGS: EFIN, HU

SUBJ: BILATERAL FINANCIAL ISSUES: CALLS ON FALUVEGI  
AND FEKETE

REF A: BUDAPEST 1567

B: BUDAPEST 1551

C: STATE 121256

1. SUMMARY: IN BACK-TO-BACK MAY 30 CALLS ON FINANCE  
MINISTER FALUVEGI AND NATIONAL BANK VICE PRESIDENT FEKETE,  
BOTH OFFICIALS DEVOTED HEAVY ATTENTION TO OUTSTANDING  
BILATERAL FINANCIAL ISSUES INCLUDING PENDING BOND SETTLE-  
RQENT AGREEMENT, HUNGARIAN PAXZJT OF /3/4 INSTALLMENT  
ON CLAIMS AGREEMENT AND SENLEMENT OF POST WORLD LNNTI  
AGRICULTURAL DEBT. FALUVEGI EXPRESSED CONCERN THAT  
SECURITY AND EXCHANGE COMMISSION (SEC) ACTION COULD BLICK  
EARLY SETTLEMENT BETWEEN GOH AND FOREIGN BONDHOLDERS  
PROTECTIVE COUNCIL AND ASKED FOR ASSISTANCE TO BRING  
THIS MATTER TO FINAL CONCLUSION AT EARLY DATE. ON  
CLAIMS AGREEMENT, HE STATED UNEQUIVOCALLY AND EXPLICITLY THE

HUNGARIANS WISHED TO MAKE 1975 INSTALLMENT PAYMENT

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PRIOR TO JUNE 10 DEADLINE AND URGED EARLY REPLY TO MFA

NOTE FORWARDED REFTEL A. REGARDICV SETTLEMENT OF HUNGARIAN CULTURAL DEBT FINANCE MINISTER STATED THAT AGREEMENT COULD BE REACHED "WITHIN 24 HOURS" UPON RECEIPT OF OFFICIAL ASSURANCES THAT THERE WERE NO MORE HUNGARIAN DEBTS TO USGGK END SUMMARY

2. DURING AMBASSADOR'S COURTESY CALL ON FALUVEGI, LATTER EXPRESSED HIS CONCERN THAT SEC MIGHT REACH DECISION THAT GOH COMPENSATION OF U.S. HOLDERS OF HUNGARIAN BONDS UNDER TERMS OF PROPOSED SETTLEMENT BETWEEN GOH AND FOREIGN BONDHOLDERS PROTECTIVE COUNCIL WOULD IN EFFECT CONSTITUTE ISSUANCE OF "NEW BOND." IF SUCH A JUDGEMENT WERE HANDED DOWN THIS WOULD OPEN PANDORA'S BOX OF NEW PROBLEMS AND, IN HIS OPINION, WOULD DELAY SETTLEMENT 2-3 YEARS. WHILE RECOGNIZING THAT USG NOT PARTY TO PROPOSED BOND AGREEMENT, FALUVEGI SUGGESTED THAT EMBASSY AND DEPT MIGHT HELP TO BRING ABOUT EARLY AND FAVORABLE SETTLEMENT THIS QUESTION SINCE SECURITIES AND EXCHANGE COMMISSION PART OF EXECUTIVE BRANCH.

3. ON CLAIMS AGREEMENT, FINANCE MINISTER STATED THAT GOH FULLY INTENDED TO PAY 1975 INSTALLMENT AND DETERMINED TO MAKE PAYMENT ON TIME. HE STATED THAT PERHAPS HUNGARIANS MIGHT HAVE TO PAY MORE THAN ORIGINALLY INTENDED, BUT QUICKLY REPEATED STANDARD GOH POSITION THAT GOLD COIN BUSINESS STRICTLY PIECE WORK OPERATION, GOLD HAD NEVER BEEN HUNGARIAN PROPERTY, AND THAT THEREFORE GOLD COINS SHOULD NOT BE COUNTED AS HUNGARIAN EXPORTS. HCU PAYMENT DUE JUNE 10 HE STRESSED IT WAS ESSENTIAL THAT GOH RECEIVE REPLY SOONEST TO ITS MAY 22 NOTE (REFTEL A).

4. ON QUESTION OF POST WORLD WAR I AGRICULTURAL DEBT, FALUVEGI WHILE REGRETTING PROBLEM HAD NOT BEEN SOLVED AT TIME OF 1973 CLAIMS AGREEMENT, SAID HUNGARIANS NOW WISHED TO GET THIS QUESTION OUT OF WAY AS SOON AS POSSIBLE IN ORDER TO OBTAIN DIRECT ACCESS TO U.S. MONEY MARKETS. HOWEVER, BEFORE SUBSTANTIVE DISCUSSIONS ON THIS MATTER COULD BEGIN, GOH NEEDED WRITTEN OFFICIAL ASSURANCES TO EFFECT THAT NO MORE DEBTS TO USG REMAINED. AS SOON AS LIMITED OFFICIAL USE

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SUCH ASSURANCES RECEIVED, HE WAS CERTAIN THAT AGREEMENT COULD BE REACHED "WITHIN 24 HOURS."

5. FEKETE IN HIS DISCUSSIONS WITH AMBASSADOR RAISED SAME THREE ISSUES EMPHASIZING THAT IT HAD BEEN HIS FERVENT DESIRE TO SETTLE ALL OUTSTANDING FINANCIAL QUESTIONS WITH U.S. SINCE U.S. ONLY MAJOR COUNTRY WITH WHICH GOH HAD YET

TO COME TO TERMS. HOWEVER, IT SEEMED THAT COMPLICATING FACTORS ALWAYS AROSE. FEKETE STATED HE DID NOT WISH TO DISCUSS MFN SINCE RESPONSIBILITY FOR LACK OF PROGRESS ON THIS ISSUE CLEARLY LAY WITH CONGRESS. BUT DISCUSSIONS SURROUNDING CLAIMS AGREEMENT AND POTENTIAL PROBELMS FACING BONDS AGREEMENT WERE QUESTIONS LYING WITHIN ADMINISTRATION'S SPHERE OF COMPETENCE AND IT OFTEN SEEMED THAT THERE WERE CERTAIN BUREAUCRATIC ELEMENTS IN TREASURY DEPT WHO WISHED TO OBSTRUCT THE NORMALIZATION PROCESS IN AMERICAN-HUNGARIAN RELATIONS. IN AN OBVIOUS REFERENCE TO HIMSELF, HE ADDED, "YOU DON'T KNOW HOW MUCH THESE COMPLICATIONS HAVE CAUSED PROBLEMS FOR THOSE IN HUNGARY WHOSEINCERELY WANT BETTER RELATIONS WITH THE U.S."

6. IN REPLY TO BOTH FALUVEGI AND FEKETE, MCAULIFFE STRESSED THE INSTRUCTIONS HE RECEIVED PRIOR TO HIS ASSIGNMENT WHICH WERE TO DO AS MUCH AS POSSIBLE TO MOVE RELATIONS FORWARD WIOYOUT DOING DAMAGE TO THE INTZDEST OF ANY THIRD PARTY. CERTAIN COMPLICATIONS IN IMPLEMENTATION HAD NOW ARISEN AND USG ALSO WISHED ELIMINATE MISUNDERSTANDINGS AND STRAIGHTEN MATTERS OUT PROMPTLY. THE EMBASSY HAD REQUESTED AND EXPRECTED ON MAY 30 DEPT'S REPLY TO MINISTRY NOTE CONCERNING MATTER OF GOLD COINS. MCAULIFFE SAID IT HAD BEEN H YD IMPRESSION THAT THIS GOLD HAD IN LEGAL FACT BEEN HUNGARIAN PROPERTY UNTIL HE HAD BEEN INFORMED OTHERWISE BY BANK CHAIRMAN LASZLO (REFTEL B). PERHAPS PROOF ELAT NEITHEJKTHE HUNGARIAN GOVERNMENT NOR ANY HUNGARIAN INTERESTS HAD EVER HAD A PROPRIETARY INTEREST IN EITHER THE GOLD OR THE RESULTING COINS WOULD HAVE SOME MATERIAL BEARING ON THE OUTCOME.  
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7. ACTION REQUESTED: EMBASSY RENEWS ITS REQUEST FOR TIMELY REPLY TO BUDAPEST 1567. ALSO PLEASE PROVIDE STATUS REPORT ON AGREEMENT REACHED BETWEEN FOREIGN BONDHOLDERS PROTECTIVE COUNCIL AND GOH INCLUDING DEPT'S ASSESSMENT OF CHANCES OF AVOIDING CLASSIFICATION OF GOH COMPENSATION TO AMERICAN BONDHOLDERS EI "NEW DZND." HUNGARIAN FINANCE OFFICIAL MAINTAINS THAT IN SIMILAR YUGOSLAV CASE THIS PROBLEM WAS BYPASSED.

. EMBASSY EAGERLY AWAITS SUBSTANTIVE MESSAGE ON PROGRESS DEPT'S CONSULTATION WITH CONGRESS AFTER SESSION RESUMES (STATE 121256).  
MCAULIFFE

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** AGREEMENTS, DEBT REPAYMENTS, DEBTS, BONDS (SECURITIES)  
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**Disposition Authority:** CunninFX  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
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